

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Cadillac-Wexford Public Library	County Wexford
Fiscal Year End 12/31/2007	Opinion Date February 7, 2008	Date Audit Report Submitted to State February 27, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

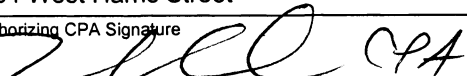
YES ☒ NO ☐

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	SAS 114 Letter	
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number (231) 775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
		Zip 49601	
Authorizing CPA Signature 		Printed Name Michael D. Cool, C.P.A.	License Number 1101023146

**CADILLAC-WEXFORD PUBLIC LIBRARY**

**(A Component Unit of Wexford County)**  
**REPORT ON FINANCIAL STATEMENTS**  
**(with required supplementary information)**

**YEAR ENDED DECEMBER 31, 2007**

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

PHONE: 231-775-9789 FAX: 231-775-9749

[www.bcbcpa.com](http://www.bcbcpa.com)

CADILLAC-WEXFORD PUBLIC LIBRARY  
(A Component Unit of Wexford County)  
CADILLAC, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED DECEMBER 31, 2007

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# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

February 7, 2008

### INDEPENDENT AUDITORS' REPORT

To The Members of the Board  
Cadillac-Wexford Public Library  
(A Component Unit of Wexford County)  
Cadillac, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Cadillac-Wexford Public Library, Cadillac, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Library's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Cadillac-Wexford Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Cadillac-Wexford Public Library as of December 31, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-5 and budgetary comparison information on page 23 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

CADILLAC-WEXFORD PUBLIC LIBRARY  
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2007

Cadillac-Wexford Public Library, a Public Library located in Wexford County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Cadillac-Wexford Public Library's administration's discussion and analysis of the financial results for the fiscal year ended December 31, 2007, along with specific comparative information as required.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

**A. Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

**B. Government-wide Financial Statements**

The government-wide financial statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Library's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

**C. Summary of Net Assets**

The following schedule summarizes the net assets at December 31:

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current Assets	\$ 1,101,479	\$ 1,043,499
Non Current Assets		
Capital Assets	3,025,619	2,874,705
Less Accumulated Depreciation	(2,281,452)	(2,156,501)
Total Non Current Assets	<u>744,167</u>	<u>718,204</u>
Total Assets	<u>1,845,646</u>	<u>1,761,703</u>
<b>Liabilities</b>		
Current Liabilities	57,903	45,698
Non Current Liabilities	<u>74,580</u>	<u>65,414</u>
Total Liabilities	<u>132,483</u>	<u>111,112</u>
<b>Net Assets</b>		
Invested in Capital Assets Net of Related Debt	744,167	697,125
Restricted for Tustin Public Library	17,791	18,025
Unrestricted	<u>951,205</u>	<u>935,441</u>
Total Net Assets	<u>\$ 1,713,163</u>	<u>\$ 1,650,591</u>

CADILLAC-WEXFORD PUBLIC LIBRARY  
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2007

**D. Analysis of Financial Position**

During the fiscal year ended December 31, 2007, the Library's net assets increased by \$62,572. A few of the more significant factors affecting net assets during the year are discussed below:

**1. Depreciation Expense**

GASB 34 requires Libraries to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended December 31, 2007, \$175,187 was recorded for depreciation expense.

**2. Capitalized Acquisitions**

For the fiscal year ended December 31, 2007, \$230,523 of expenditures were capitalized and recorded as assets of the Library. These additions to the Library's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets, current year disposals and the current year's depreciation is an increase to capital assets in the amount of \$25,963 for the fiscal year ended December 31, 2007.

**E. Results of Operations**

For the fiscal years ended December 31, the results of operations were:

	<u>2007</u>	<u>2006</u>
<b>General Revenues</b>		
Property Taxes	\$ 696,050	\$ 643,698
Interest	28,168	26,102
State Sources	253,099	291,408
Other	19,733	29,343
Total General Revenues	<u>997,050</u>	<u>990,551</u>
<b>Program Revenues</b>		
Charges for Services	4,204	3,965
Operating Grants	20,157	23,300
Total Program Revenues	<u>24,361</u>	<u>27,265</u>
Total Revenues	<u>1,021,411</u>	<u>1,017,816</u>
<b>Expenses</b>		
General Government	958,839	931,557
Change in Net Assets	<u>\$ 62,572</u>	<u>\$ 86,259</u>

CADILLAC-WEXFORD PUBLIC LIBRARY  
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2007

**F. Analysis of Significant Revenues and Expenses**

Significant revenues and expenses are discussed in the segments below:

**1. Property Taxes**

The Library levies .6785 mills of property taxes for operations.

For 2007, the Library recognized \$696,050 of property tax revenue.

**2. State Sources**

The majority of the state sources are comprised of penal fines received from Wexford and Osceola Counties. The Library collected \$223,002 in penal fines for 2007.

**3. Operating Grants**

The Library funds a portion of its operations with grants. For the fiscal year ended December 31, 2007, state and other grants accounted for \$50,254.

**G. General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on January 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on December 31.

For 2007, the Library amended the general fund budget in April and December 2007. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	Original Budget	Final Budget	Actual	Variance With Final Budget
Total Revenues	\$ 947,950	\$ 947,950	\$ 978,594	\$ 30,644
Total Expenditures	947,950	1,032,950	1,001,945	31,005
Total	\$ 0	\$ (85,000)	\$ (23,351)	\$ 61,649

There was no variance in the Total Revenues Original Budget to Final Budget. The variance in the Total Expenditures Original Budget to Final Budget was an increase of \$85,000. This increase was a result of anticipated expenditures being larger than the original budget.

CADILLAC-WEXFORD PUBLIC LIBRARY  
(A Component Unit of Wexford County)

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED DECEMBER 31, 2007

**H. Capital Assets**

At December 31, 2007, the Library had \$3,025,619 in capital assets, including leasehold improvements and equipment, furniture and fixtures, as well as books. Depreciation expense for the year amounted to \$175,187 bringing the accumulated depreciation to \$2,281,452 as of December 31, 2007.

**I. Factors Bearing on the Library's Future**

At the time that these financial statements were prepared and audited, the Library was aware of the following items that could significantly affect its financial health in the future:

A significant portion of the Library's funding comes from property taxes and penal fines, any impairment to these funding sources would greatly impact the future of the Library.

In January 2008 the Library millage was renewed for a period of seven years at 0.7500 mills.

**J. Contacting the Library's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report, please contact the Cadillac-Wexford Public Library, 411 S Lake Street, Cadillac, Michigan 49601.



CADILLAC WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS

DECEMBER 31, 2007

ASSETS

CURRENT ASSETS

Cash	\$ 376,659
Receivables	
Accounts	6,207
Taxes	693,952
Prepaid Expenses	24,661
	<hr/>
Total Current Assets	1,101,479

NON CURRENT ASSETS

Capital Assets	3,025,619
Less Accumulated Depreciation	(2,281,452)
	<hr/>
Total Non Current Assets	744,167
	<hr/>
TOTAL ASSETS	1,845,646

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	29,960
Accrued Wages	17,298
Deferred Revenue - Unearned	10,645
	<hr/>
Total Current Liabilities	57,903

NON CURRENT LIABILITIES

Compensated Absences	74,580
	<hr/>
Total Liabilities	132,483

NET ASSETS

Invested in Capital Assets	744,167
Restricted For Tustin Public Library	17,791
Unrestricted	951,205
	<hr/>
Total Net Assets	\$ 1,713,163

The notes to the financial statements are an integral part of this statement.

CADILLAC WEXFORD PUBLIC LIBRARY  
(A Component Unit of Wexford County)  
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR SERVICES	CAPITAL GRANTS	ACTIVITIES
				NET (EXPENSES) REVENUES AND CHANGES IN NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
General Government	\$ 958,839	\$ 4,204	\$ 20,157	\$ (934,478)
<u>GENERAL REVENUES</u>				
Property Taxes				696,050
Interest				28,168
State Sources				253,099
Other				19,733
Total General Revenues				997,050
Change in Net Assets				62,572
<u>NET ASSETS</u> - Beginning of Year				1,650,591
<u>NET ASSETS</u> - End of Year				\$ 1,713,163

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

GENERAL FUND

BALANCE SHEET

DECEMBER 31, 2007

ASSETS

Cash	\$	376,659
Receivables		
Accounts		6,207
Taxes		693,952
Prepaid Expenses		<u>24,661</u>
 TOTAL ASSETS	 \$	 <u><u>1,101,479</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$	29,960
Accrued Wages		17,298
Deferred Revenue		<u>704,597</u>
 Total Liabilities		 <u>751,855</u>

FUND BALANCE

Reserved for Tustin Public Library:		17,791
Unreserved		
Designated for:		
Sick and Vacation		65,000
Improvements and Expansion		50,000
Equipment Upgrades		50,000
Undesignated		<u>166,833</u>
 Total Fund Balance		 <u>349,624</u>
 TOTAL LIABILITIES AND FUND BALANCE	 \$	 <u><u>1,101,479</u></u>

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY  
(A Component Unit of Wexford County)  
CADILLAC, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

DECEMBER 31, 2007

Total General Fund Balance		\$ 349,624
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds		
The cost of the capital assets is	3,025,619	
Accumulated depreciation is	<u>(2,281,452)</u>	744,167
Other assets are not available to pay for current period expenditures and therefore are not reported in the funds		
Taxes Receivable		693,952
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Compensated Absences		<u>(74,580)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$ 1,713,163</u></u>

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND

YEAR ENDED DECEMBER 31, 2007

REVENUES

Taxes

Wexford County

Current Property Tax \$ 611,923

Industrial Facilities Tax 6,898

Osceola County

Current Property Tax 29,182

State Sources

Library State Aid 30,097

Library Penal Fines

Wexford County 205,442

Osceola County 17,560

Charges for Services

Copy Machine Receipts 4,204

Fines and Forfeits

Library Book Fines 12,760

Interest and Rents

Interest 28,168

Other Revenues

Cadillac Community Foundation Grant 4,724

Gates Foundation Grant 15,433

Contributions and Donations from Private Sources 1,890

Refunds and Rebates 4,679

Miscellaneous 5,634

Total Revenues 978,594

EXPENDITURES

Culture and Recreation

Personal Services

Salaries and Wages

Tustin Library 26,916

Cadillac-Wexford Public Library 406,415

Employee Benefits

Payroll Taxes

Tustin Library 2,067

Cadillac-Wexford Public Library 31,065

Fringe Benefits

Tustin Library 7,963

Cadillac-Wexford Public Library 74,285

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY

(A Component Unit of Wexford County)

CADILLAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

GENERAL FUND

YEAR ENDED DECEMBER 31, 2007

Supplies	
Tustin Library	1,200
Cadillac-Wexford Public Library	23,112
Other Services and Charges	
Audit	4,990
Data Processing	5,760
Consulting Services	12,891
Other Professional Services	812
Insurance	
Tustin Library	553
Cadillac-Wexford Public Library	7,484
Telephone	
Tustin Library	399
Cadillac-Wexford Public Library	11,095
Board of Directors	1,951
Travel and Education	5,698
Public Relations	2,386
Dues, Publications, and Fees	1,763
Utilities	24,364
Repair and Maintenance	
Tustin Library	520
Cadillac-Wexford Public Library	28,718
Rental Expense	25,193
State Aid - Membership	12,961
Computer Software	16,708
Miscellaneous Expense	1,132
Capital Outlay	
Lease Hold Improvements and Equipment	
Tustin Library	5,556
Cadillac-Wexford Public Library	140,336
Books	
Tustin Library	4,834
Cadillac-Wexford Public Library	112,818
Total Expenditures	<u>1,001,945</u>
Excess (Deficiency) of Revenues Over Expenditures	(23,351)
<u>FUND BALANCE</u> - Beginning of Year	<u>372,975</u>
<u>FUND BALANCE</u> - End of Year	<u>\$ 349,624</u>

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY  
(A Component Unit of Wexford County)  
CADILLAC, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE OF THE GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2007

Net change in General Fund Balance	\$ (23,351)
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.	
Depreciation Expense	(175,187)
Capital Outlay	230,523
Repayments of principal on long term debt is an expenditure in the general fund, but not in the statement of activities (where it is a reduction of liabilities).	
	21,079
In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. The change in net assets differs from the change in fund balance by the cost of the capital assets sold net of accumulated depreciation.	
	(29,373)
Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:	
Taxes Included in Deferred Revenue - Beginning of Year	(645,905)
Taxes Included in Deferred Revenue - End of Year	693,952
Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental	
Compensated Absences - Beginning of Year	65,414
Compensated Absences - End of Year	(74,580)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 62,572</u>

The notes to the financial statements are an integral part of this statement.

CADILLAC-WEXFORD PUBLIC LIBRARY  
(A Component Unit of Wexford County)  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Cadillac-Wexford Public Library have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

**A. Reporting Entity**

The Cadillac-Wexford Public Library provides library services to the Wexford County area from its facilities located in Cadillac. The Library is also responsible for operating the Tustin, Manton, and Mesick Libraries, along with providing salaries and fringe benefits to the Buckley Library. The Library board consists of eleven members, five of whom are appointed by the City of Cadillac and six who are appointed by Wexford County. As such, the Library is considered to be a component unit of Wexford County.

**B. Government-wide and Fund Financial Statements**

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.



CADILLAC-WEXFORD PUBLIC LIBRARY  
(A Component Unit of Wexford County)  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Library as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The accounts of the Library are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period except that the Library does not recognize property taxes collected within 60 days of year end until the next fiscal year because those property tax revenues are budgeted for in the next fiscal year to pay for the Library's functions. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have

CADILLAC-WEXFORD PUBLIC LIBRARY  
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CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2007

been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

All other revenue items are considered to be measurable and available only when cash is received by the Library.

Governmental funds include the following fund type:

The General Fund is the primary operating fund of the Library. It is used to account for all financial resources of the Library.

**D. Assets, Liabilities and Equity**

1. Deposits and Investments

The Library is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- i. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- ii. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution.
- iii. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- iv. Repurchase agreements consisting of instruments listed in (i).
- v. Banker's acceptances of United States banks.
- vi. Obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than one standard rating service.
- vii. Mutual funds registered under the Investment Company Act of 1940, title I of chapter 686, 54 Stat. 789 15 U.S.C. 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by the Library. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
- viii. Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.
- ix. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.118.

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2. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Books	7 years
Furniture and Fixtures	10 years
Equipment	5 years
Leasehold Improvements	20 years

The Library's policy is to capitalize all books plus individual amounts exceeding \$500 for computer equipment and \$1,000 for all other items.

3. Compensated Absences

It is the Library's policy to permit employees to accumulate earned but unused sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

6. Fund Balance

In the financial statements, the unreserved fund balance for governmental funds represents the amount available for budgeting future operations. Reservations of fund balance are for amounts

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that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

**A. Budgetary Information**

The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Director of the Library annually prepares an operating budget taking into consideration the recommendations of the board. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the Library board prior to the start of the fiscal year which it covers.
3. All transfers of budget amounts above a certain preauthorized limit between accounts within the General Fund must be approved by the Library board.
4. The budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts are as originally adopted, or as amended by the Library board. Two budget amendments were made during the year.
5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Library because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

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III. DETAILED NOTES ON GENERAL FUND

**A. Deposits and Investments**

The Library's deposits are on deposit with Northwestern Bank, Citizens Bank and Firstbank.

*Investment rate risk.* The Library will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Library's cash requirement.

*Foreign currency risk.* The Library is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Library will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Library's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Library will do business in accordance with the Library's investment policy.

*Concentration of credit risk.* The Library will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of December 31, 2007, \$95,908 of the library's bank balance of \$395,908 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Library held no investments.

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**B. Capital Assets**

A summary of changes in the Library's capital assets follows:

	Beginning Balance January 1, 2007			Ending Balance December 31, 2007	
Capital assets:					
Books	\$ 2,221,680	\$ 87,634	\$ 13,609	\$	2,295,705
Furniture and Fixtures	383,486	3,057	0		386,543
Equipment	148,950	51,540	66,000		134,490
Leasehold Improvements	120,589	88,292	0		208,881
Subtotal	2,874,705	230,523	79,609		3,025,619
Less Accumulated Depreciation for:					
Books	1,881,027	128,605	11,736		1,997,896
Furniture and Fixtures	190,383	20,200	0		210,583
Equipment	84,720	20,353	38,500		66,573
Lease Hold Improvements	371	6,029	0		6,400
Total Accumulated Depreciation	2,156,501	175,187	50,236		2,281,452
Net Capital Assets	\$ 718,204	\$ 55,336	\$ 29,373	\$	744,167

Depreciation for the fiscal year ended December 31, 2007 amounted to \$175,187.

**C. Property Taxes and Deferred Revenue**

The Library receives revenue from a countywide library millage on the December tax roll. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended December 31, 2007, the Library levied the following amount per \$1,000 of taxable valuation.

<u>PURPOSE</u>	<u>MILLS</u>
Operating	\$ .6785/\$1,000

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Substantially all of the taxes raised by this millage are not received by the Library until the following year, therefore, those taxes are deferred until the following year.

**D. Debt**

A summary of the Debt transactions for the Library for the year ended December 31, 2007, is as follows:

	<u>CAPITAL LEASE</u>	<u>COMPENSATED ABSENCES</u>
Debt at January 1, 2007	\$ 21,079	\$ 65,414
New Liabilities	0	9,166
Liabilities Retired	(21,079)	0
Total Debt	<u>0</u>	<u>74,580</u>
Less Amounts Classified as Current	0	0
Long-Term Debt at December 31, 2007	<u>\$ 0</u>	<u>\$ 74,580</u>

At December 31, 2007, the Library's Debt consisted of the following:

Compensated Absences	<u>\$ 74,580</u>
----------------------	------------------

The annual requirement to amortize the accrued compensated absences is uncertain because it is unknown when the employees will use the leave.

**E. Compensated Absences Liability**

Employees of the Library are entitled to paid vacation and paid sick days depending on job classification, length of service and other factors. At December 31, 2007, the accrued expense for compensated absences was \$74,580.

**F. Fund Balance Reserved and Designated**

Fund Balance Reserved for Tustin accounts for the portion of fund balance created by Tustin Library related revenues in excess of expenditures.

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IV. OTHER INFORMATION

**A. Building Leases**

The building in which the Library is located is owned by the City of Cadillac. The City leases the building to the Library at a cost of \$1 a year. The Mesick facility is located in a building owned by the Village of Mesick and is leased at a cost of \$1 a year. The Manton facility is located in a building owned by the City of Manton and is leased at a cost of \$1 a year.

**B. Equipment Leases**

Capital Lease - The Library has entered into one lease agreement as lessee for financing the acquisition of computer equipment. A \$1 purchase option exists at the end of the lease. This lease qualifies as a capital lease for accounting purposes. This lease agreement was completed during 2007.

Computer equipment and related accumulated depreciation under capital leases are as follows:

	<u>Governmental Activities</u>
Asset:	
Equipment	\$ 11,846
Less: accumulated depreciation	<u>(4,181)</u>
Total	<u><u>\$ 7,665</u></u>

Depreciation of leased equipment under capital assets is included in depreciation expense.

**C. Retirement Commitments**

The Library's employees are participants in the Michigan Municipal Employees Retirement System (MERS) through the City of Cadillac. This is an agent multiple-employer defined benefit pension plan administered by the State of Michigan. Separate information on funding status and progress for the Library's employees is not available. Complete pension disclosures for the entire plan can be found in the comprehensive annual financial report of the City of Cadillac. Copies of the report are available at the Cadillac Municipal Complex and the Cadillac-Wexford Public Library.

**D. Risk Management**

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The Library participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools.



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The Library pays annual premiums to each pool for the respective insurance coverage. In the event a pool member's covered loss exceeds the pools limits, all further payments become the sole obligation of the member. The Library has not been notified of any shortfalls in the pools for the current or previous three years.

**E. Collections of Works of Art and Historical Treasures**

The Library, over the years, has received contributions from patrons for such items as butterfly collections and rare books. The Library considers these items to be of an intangible nature, and is unable to place a cost on the items. Therefore, the items are not shown on these financial statements, and accordingly, no depreciation expense has been recorded on these items.

**F. Subsequent Event**

In January 2008 Wexford County residents approved a 0.7500 millage renewal for a period of seven years.

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CADILLAC, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED DECEMBER 31, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
REVENUES			
Taxes	\$ 631,000	\$ 631,000	\$ 648,003
State Grants	284,950	284,950	253,099
Charges For Services	3,500	3,500	4,204
Fines and Forfeits	11,000	11,000	12,760
Interest and Rents	12,000	12,000	28,168
Other Revenues	5,500	5,500	32,360
Total Revenues	947,950	947,950	978,594
EXPENDITURES			
Culture and Recreation			
Personal Services	587,225	557,225	548,711
Supplies	24,375	30,375	24,312
Other Services and Charges	180,175	167,850	165,378
Capital Outlay	156,175	277,500	263,544
Total Expenditures	947,950	1,032,950	1,001,945
Excess (Deficiency) of Revenues Over Expenditures	0	(85,000)	(23,351)
<u>FUND BALANCE</u> - Beginning of Year	372,975	372,975	372,975
<u>FUND BALANCE</u> - End of Year	\$ 372,975	\$ 287,975	\$ 349,624

# *Baird, Cotter and Bishop, P.C.*

## CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

February 7, 2008

Cadillac-Wexford Public Library  
Cadillac, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Cadillac-Wexford Public Library, Cadillac, Michigan as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Cadillac-Wexford Public Libraries' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency and to be a material weakness.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

- 1) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data

(i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A *material weakness* is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the deficiency described above constitute material weaknesses.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P. C.

*Baird, Cotter & Bishop, P.C.*

# *Baird, Cotter and Bishop, P.C.*

## CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
PHONE: 231-775-9789 FAX: 231-775-9749  
www.bcbcpa.com

February 7, 2008

### COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Board of Directors  
Cadillac-Wexford Public Library  
Wexford County  
Cadillac, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Cadillac-Wexford Public Library for the year ended December 31, 2007, and have issued our report thereon dated February 7, 2008. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 3, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Cadillac-Wexford Public Library are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the taxes receivable which is based on revised 2007 taxable values obtained from Wexford County and the Library's millage rate. We evaluated the key factors and assumptions used to develop the receivable in determining that it is reasonable in relation to the financial statements taken as a whole.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Please see the attached list of all of our proposed adjustments that were corrected by management.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated February 7, 2008.

#### *Other Audit Findings or Issues*

During the course of our audit of the basic financial statements of Cadillac-Wexford Public Library for the year ended December 31, 2007, we noted the following item which we feel deserves comment:

#### Condition of Accounting Records and Accounting Controls

We would like to commend the accounting personnel for their efforts in accumulating the information needed for our audit. We encourage you to review your internal and accounting controls on an annual basis to ensure they are adequate and operating as intended.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This communication is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*